

**DRAFT**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**  
**ENERGY DIVISION**  
**ID#3185**  
**RESOLUTION G-3362**  
**February 26, 2004**

**R E S O L U T I O N**

Resolution G-3362. Pacific Gas and Electric (PG&E) requests the Commission's approval to credit the Core Gas Fixed Cost (CFCA), the Noncore Customer Class Charge Account (NCA) and the Electric Transition Revenue Account (TRA) by the amount of over-collected revenue requirements associated with medical and life insurance Post-retirement Benefits Other than Pensions (PBOPs) and Long Term Disability (LTD) for the period of 1999 through 2002. The filing is made in compliance with Decision (D.) 00-02-046 and D. 95-12-055. Approved.

By Advice Letter 2493-G/2432-E Filed on October 28, 2003.

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**SUMMARY**

This Resolution approves PG&E's request to credit the overcollected revenue requirements for medical and life insurance PBOPs and LTD for the period of 1999 through 2002 to the CFCA, NCA, and the TRA. The credits to the three accounts total \$75,460,000. Applying the credits to the aforementioned accounts is consistent with prior Commission treatment of similar overcollections. (See Resolution G-3317 approving PG&E's Advice Letter 2272-G/2050-E.) Additionally, this treatment is more cost effective than disbursing checks or crediting ratepayer's individual accounts.

ORA's protest is denied.

**BACKGROUND**

Advice Letter 2493-G/2432-E is filed in compliance with PG&E's 1999 General Rate Case (GRC), D. 00-02-046 (pages 319 through 324). The 1999 GRC decision continued the PBOPs adjustment treatment previously adopted in PG&E's 1996 GRC D. 95-12-055 (Ordering Paragraph 8), as modified by D. 96-05-010. PG&E filed the advice letter to correct for the difference between the revenue

requirement associated with the estimated PBOP expenses adopted in PG&E's 1999 GRC and the actual PBOP expenses. The actual PBOP expense is the lesser of the Statement of Financial Accounting Standard (SFAS) 106 expense or the tax deductible contribution amount for 1999 through 2002.

Decision 95-12-055 also requires that PG&E provide a similar adjustment based on any difference between the revenue requirement associated with the estimated contribution to the trust established for LTD benefits adopted in the 1999 GRC and the revenue requirement associated with the actual amounts contributed to the trust.

The method used to calculate the adjustments is the same as that used to calculate the adjustments proposed in Advice Letter 1956-G/1583-G, filed June 7, 1996, for 1993 through 1995 and Advice Letter 2272-G/2050-E, filed October 27, 2000, for 1996 through 1998. On July 17, 1996, the Commission approved Advice Letter 1956-G/1583-E; on June 28, 2001, the Commission approved Advice Letter 2272-G/2050-E in Resolution G-3317.

PG&E will post prior period credit adjustments to the CFCA, NCA, and the TRA accounts totaling \$75,460,000.

## **NOTICE**

Notice of AL 2493-G/2432-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

## **PROTESTS**

In a letter from the Commission dated November 17, 2003, the protest period for PG&E's AL 2493-G/2432-E was extended from November 17, 2003 to December 8, 2003.

PG&E's Advice Letter AL 2493-G/2432-E was timely protested by the Office of Ratepayer Advocates (ORA) on December 8, 2003.

ORA protests that PG&E's elimination of certain credit values, or "negative expenses," by setting a value of zero for ratesetting process provides a windfall to shareholders at the expense of ratepayers.

ORA further protests that PG&E's contribution to the LTD trust is inconsistent with the Commission order.

On December 15, 2003, PG&E responded to ORA's protest. PG&E disputes ORA's protest and claims that PG&E's treatment is exactly consistent with the Commission's decisions on the revenue requirement true-up for these benefit plans.

## **DISCUSSION**

Energy Division reviewed Advice Letter 2493-G/2432-E, ORA's protest, and PG&E response. We discuss below the relevant issues raised in the protest, which we reject.

### **Negative Expenses**

In 2000, the PBOPs medical trust, and in 2000 and 2001, the PBOPs life trust experienced situations where the amortizations of the prior net gains were large enough to create net negative expenses. In those instances, PG&E used a lower limit of zero expense to determine the credit to customers. ORA protests that PG&E should use the negative expense and credit excessive amount to customers.

PG&E responds that PG&E's treatment of the negative SFAS 106 expense is logical, returns to customers all the funds available, and does not create gains or losses to either PG&E or its customers.

PG&E's argument is persuasive. ORA's protest is not consistent with Commission Decision 92-12-015 that adopted SFAS 106 (Employers' Accounting for Postretirement Benefits Other Than Pensions). In that decision, it was noted that one of the components of the annual PBOP costs was "actual return on plan assets". Additionally, one of the considerations of the decision was the time value of money. It was discussed, and no party disputed, that returns of invested funds would result in lower overall cost to the ratepayer. Finally, as PG&E is authorized to recover PBOP expenses, it follows that if the PBOP expense is zero, then there is nothing for PG&E to recover from ratepayers. It does not follow that excess income from the trust be shared with ratepayers via a

refund. Any excess income earned by the trust will, however, benefit ratepayers by lowering future PBOP revenue requirements.

ORA's protest to credit the excess gains of the trust to the ratepayers would violate the definition of the cost component and negate the time value of money consideration. ORA's protest would also require that the trust assets be reduced, which would cause future contributions to increase.

### **LTD Contribution**

ORA protests that PG&E is replacing SFAS 112 (Employers' Accounting for Postemployment Benefits) expenses to the LTD trust with an amount that PG&E unilaterally decides. This is incorrect. As PG&E rebutted, ORA's protest gives the impression that the Commission established a true-up requirement based on the lower of the SFAS expense or the contribution to the trust. No such direction was given in the 1996 GRC decision (D.) 95-12-055. In that decision, ORA's predecessor organization, the Division of Ratepayer Advocates (DRA) recommended "that PG&E be required to refund to ratepayers any funds collected for this purpose (LTD) but not used to pay for postemployment benefits." The decision concludes the LTD discussion by stating, "Ultimately, PG&E shall refund any amounts included in rates that are not contributed to the fund." Nothing in the decision discusses SFAS 112 expenses.

PG&E further supports its position by demonstrating that in a similar advice letter covering the 1996 through 1998 period (Advice Letter 2272-G/2050-E), the LTD true-up basis was contribution, not SFAS 112 expense. In that advice letter filing, the LTD true-up basis was not an issue. If, after six years, ORA believes that D.95-12-055 intended to use SFAS 112 expenses, rather than contributions, then ORA should request such a change in the docket that adopted it, not in this compliance advice letter.

### **COMMENTS**

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

PG&E filed Comments on February 11, 2004. PG&E noted that a subsequent Advice Letter (AL 2510-G/2460-E) proposed elimination of the Transition Revenue Account (TRA), and as such, suggested that “(or successor accounts)” be inserted after “CFCA, NCA, and the TRA accounts” in Finding 3 of Resolution G-3362. The recommendation was incorporated into this resolution.

## **FINDINGS**

1. PG&E filed Advice Letter 2493-G/2432-E in compliance with Commission Decision 00-02-046.
2. PG&E Advice Letter 2393-G/2432-E filed on October 28, 2003, requests approval to credit the overcollected revenue requirements for medical and life insurance PBOPs and LTD for the period of 1999 through 2002, to the Core Gas Fixed Cost, the Noncore Customer Class Charge Account and the Electric Transition Revenue Account. Crediting these accounts will be more cost effective to ratepayers and shareholders than disbursing checks or credits to individual ratepayers.
3. PG&E will post prior period credit adjustments to the CFCA, NCA, and the TRA accounts (or successor accounts) totaling \$75,460,000.
4. Pursuant to Section XV of G.O. 96-A, on November 17, 2003, the protest period for PG&E's AL 2493-G/2432-E was extended from November 17, 2003 to December 8, 2003.
5. ORA protested the advice letter on December 8, 2003. ORA protested PG&E's methodology for determining revenue requirement for PBOPs and LTD. ORA specifically objected to PG&E's exclusion of “negative expenses” to the PBOP calculation and to the use of contribution, not SFAS 112 expenses for the LTD calculation.
6. Energy Division reviewed PG&E's methodology for determining revenue requirement and adjustments for PBOPs and LTD and found it consistent with the methodology adopted in the D. 92-12-015 and D.95-12-055, respectively.
7. PG&E's methodology for LTD is consistent with the previous advice letter covering the 1996 through 1998 period (Advice Letter 2272-G/2050-E).

8. ORA provided no information supporting its protest that PG&E's determination of the refund due to ratepayers is incorrect.

**THEREFORE IT IS ORDERED THAT:**

1. PG&E's Advice Letter 2493-G/2432-E to credit overcollected revenue requirements associated with medical and life PBOPs and LTD is approved.
2. The protest of the Office of Ratepayer Advocates is denied.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on February 26, 2004; the following Commissioners voting favorably thereon:

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WILLIAM R. AHERN  
Executive Director